

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF FREMONT	County NEWAYGO
Fiscal Year End JUNE 30, 2006	Opinion Date OCTOBER 5, 2006	Date Audit Report Submitted to State NOVEMBER 1, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No letter of comments this year	
Other (Describe)	<input type="checkbox"/>	No single audit or other reports required	
Certified Public Accountant (Firm Name) Brickley DeLong, PLC		Telephone Number 231-726-5800	
Street Address 500 Terrace Plaza, P.O. Box 999		City Muskegon	State MI
		Zip 49443	
Authorizing CPA Signature <i>Timothy D. Arter, CPA for Brickley DeLong, PLC</i>		Printed Name TIMOTHY D. ARTER	
		License Number 10253	

City of Fremont
Newaygo County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

City of Fremont

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This discussion and analysis is intended to serve as an introduction to the City of Fremont's (City) basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2006. The City's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the governmental-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year the City of Fremont had total assets of \$29,964,170 and total liabilities of \$988,710 leaving net assets of \$28,975,460, an increase of 5.1% in the City's overall net assets.
- Of the total \$28,975,460 in net assets, the City may use \$5,712,316 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$6,240,098, comprised of governmental revenues of \$4,852,407 and business-type revenues of \$1,387,691. Revenues for the component units totaled \$373,398.
- Total expenses for all of the City's programs were \$4,826,831. Of that total, the governmental expenses were \$3,828,316 and the business-type expenses were \$998,515. Expenses for the component units were \$335,186.
- The City was able to maintain the number, type and current levels of City services to its citizens with no increase in its property tax levy, even in the face of a 25.1% cut in state-shared revenues over the past few years and increasing operating costs.
- Many municipal government financial advisors recommend maintaining unrestricted fund balances at approximately 25% of annual operating costs to allow for sufficient working capital and emergency funding throughout the upcoming year. The City of Fremont's ending fund balance for the fiscal year is approximately 37% of projected costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. The City reports all changes in net assets when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include water distribution and sanitary sewer services.

The Statement of Net Assets and the Statement of Activities include not only the City of Fremont itself (known as the primary government), but also discretely presented component units. Component units are separate legal entities for which the City has some level of financial accountability. The City has two component units: the Downtown Development Authority (DDA) and the Local Development Finance Authority (LDFA). The component units exist primarily for the issuance and repayment of debt to finance capital projects in specific commercial and industrial areas of the City.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Major Streets, Local Improvement and Capital Projects funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Fremont has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sanitary sewer operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2006 the City's net assets from governmental activities totaled \$16,319,007 and \$12,656,453 from business-type activities, for a government-wide net asset total of \$28,975,460.

In examining composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries or operational expenses or to fund capital projects.

Governmental capital assets and the corresponding invested in capital assets, net of related debt net assets category increased by \$988,295 and \$1,119,457, respectively mainly due to reconstruction projects at the Fremont Municipal Airport, which have continued through coordination of the Michigan Department of Transportation's Bureau of Aviation.

Business-type activities current assets increased, reflecting the increase in unrestricted net assets. The business-type activities have no long-term debt other than compensated absences.

Management's Discussion and Analysis

NET ASSETS

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current assets and						
other assets	\$ 4,025,398	\$ 3,987,003	\$ 3,411,366	\$ 2,842,262	\$ 7,436,764	\$ 6,829,265
Capital assets	13,241,107	12,252,812	9,286,299	9,391,854	22,527,406	21,644,666
Total assets	17,266,505	16,239,815	12,697,665	12,234,116	29,964,170	28,473,931
Current liabilities	754,412	370,551	26,443	28,434	780,855	398,985
Noncurrent liabilities	193,086	497,860	14,769	14,893	207,855	512,753
Total liabilities	947,498	868,411	41,212	43,327	988,710	911,738
Net assets						
Invested in capital						
assets, net of related						
debt	12,885,724	11,766,267	9,286,299	9,391,854	22,172,023	21,158,121
Restricted	1,091,121	1,094,684	-	-	1,091,121	1,094,684
Unrestricted	2,342,162	2,510,453	3,370,154	2,798,935	5,712,316	5,309,388
Total net assets	\$ 16,319,007	\$ 15,371,404	\$ 12,656,453	\$ 12,190,789	\$ 28,975,460	\$ 27,562,193

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets.

CHANGES IN NET ASSETS

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 677,251	\$ 745,967	\$ 1,279,297	\$ 1,201,235	\$ 1,956,548	\$ 1,947,202
Operating grants and						
contributions	427,604	474,931	-	-	427,604	474,931
Capital grants and						
contributions	1,013,489	1,297,685	3,605	3,500	1,017,094	1,301,185

CHANGES IN NET ASSETS—CONTINUED

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:—Continued						
General revenues						
Property taxes	\$ 2,031,492	\$ 1,954,685	\$ -	\$ -	\$ 2,031,492	1,954,685
Franchise fees	34,027	43,189	-	-	34,027	43,189
Grants and contributions						
not restricted	421,921	424,411	-	-	421,921	424,411
Unrestricted investment						
earnings	171,639	131,502	104,789	66,292	276,428	197,794
Miscellaneous	14,249	53,337	-	-	14,249	53,337
Gain on sale of						
capital assets	60,735	35,246	-	-	60,735	35,246
Total revenues	4,852,407	5,160,953	1,387,691	1,271,027	6,240,098	6,431,980
Expenses:						
General government	817,771	819,746	-	-	817,771	819,746
Public safety	1,162,576	1,085,138	-	-	1,162,576	1,085,138
Public works	1,423,711	1,722,535	-	-	1,423,711	1,722,535
Community and economic						
development	198,462	189,810	-	-	198,462	189,810
Culture and recreation	201,942	210,004	-	-	201,942	210,004
Interest on long term debt	23,854	25,547	-	-	23,854	25,547
Sewer Fund	-	-	566,735	545,223	566,735	545,223
Water Fund	-	-	431,780	411,460	431,780	411,460
Total expenses	3,828,316	4,052,780	998,515	956,683	4,826,831	5,009,463
Change in net assets						
before transfers	1,024,091	1,108,173	389,176	314,344	1,413,267	1,422,517
Transfers	(76,488)	-	76,488	-	-	-
Change in net assets	947,603	1,108,173	465,664	314,344	1,413,267	1,422,517
Net assets - Beginning	15,371,404	14,263,231	12,190,789	11,876,445	27,562,193	26,139,676
Net assets - Ending	\$ 16,319,007	\$ 15,371,404	\$ 12,656,453	\$ 12,190,789	\$ 28,975,460	\$ 27,562,193

Governmental Activities

- At year-end on June 30, 2006, governmental activities net assets increased by \$947,603 (6.2%).
- Although revenues decreased by \$308,546, expenses also decreased by \$224,464, allowing some increase in net asset reserves for the governmental activities as a whole.
- Property tax revenues increased \$76,807 (3.9%) despite the negative impact of the limits placed on the City by the “Headlee” and “Proposal A” Amendments to the State Constitution and Gerber Products Company’s Michigan Tax Tribunal filing. The City’s millage rate remained at 14.0 mills, where it has been for the past eight years.
- Fortunately, interest rates continued to rise during the year earning the City an additional \$40,137 investment income.

Business-Type Activities

- At year-end on June 30, 2006, business-type activities net assets increased by \$465,664 or 3.8%.
- Investment earnings gave business-type activities an additional \$104,789 for spending, an increase of \$38,497 from last year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this Management's Discussion and Analysis, the City of Fremont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the governmental funds reported a combined fund balance of \$2,944,453. Of this number, \$2,395,313 represents the unreserved fund balance, comprised of \$1,124,926 in the General Fund and \$1,270,387 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances of \$69,709, perpetual care of \$279,686, debt service of \$28,432, capital projects of \$63,324, and other reservations of \$107,989.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, elections, legal, recreation, garbage collection, boards and commissions and other minor functions. The General Fund ended the year with a fund balance of \$1,232,915, a \$23,511 decrease from fiscal 2005. The unreserved fund balance of the General Fund was \$1,124,926. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 38% of the General Fund expenditures.

General Fund revenues exceeded expenses by \$295,681 before transfers. After transfers, the net change in fund balance was a decrease of \$23,511. Combined with a beginning fund balance of \$1,256,426, the General Fund had an ending fund balance of \$1,232,915. Overall, in comparison to the previous year, General Fund revenues increased by \$120,107 and expenditures decreased by \$27,440. The increase in revenues is principally from property taxes and investment earnings and the decrease in expenses is due to less spending in capital expenditures items within the fund.

Although state shared revenues (gas and weight tax, etc.) remained stagnant, both Major Streets and Local Streets funds financed reconstruction and resurfacing projects that were needed.

The City continues to help fund special assessment projects by the Local Improvement Fund, to be later assessed back to property owners benefiting from the projects.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. For the year ended June 30, 2006, net assets of the Sewer Fund decreased by \$38,410 and net assets of the Water Fund increased by \$501,162.

Although the Sewer Fund's net assets decreased due to depreciation expense, the Fund remains healthy as shown on the Statement of Cash Flows. As this statement indicates, sewer operations generated \$119,987 in cash flow, leaving available cash and investments at year end of \$1,313,605.

The City had been anticipating the need for expanding the City's wastewater irrigation system within a few years, but the MDEQ recently granted the City permission to raise the retaining walls on the existing wastewater retention lagoons. This enhancement should extend the City's wastewater capacity by 70%, giving the City opportunity to grow before having to expand the facility.

High depreciation expense in the Sewer Fund is due primarily to Gerber Products Company's food processing wastewater irrigation system. The City coordinated a Community Development Block Grant (CDBG) through the State of Michigan in 1996-97 to help replace key components of Gerber's existing food production wastewater treatment system. The City continues to own the system but leases it to Gerber, which is responsible for all operation, maintenance, repair and replacement costs.

Budget Analysis – All Funds

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The year ending June 30, 2006 was typical.

The most significant of this year's budget amendments were:

- \$324,175 for the receipt of a MSHDA grant for Downtown Residential Rental Rehabilitation
- \$80,930 for several airport project grant amendments including runway marking and lighting, perimeter fencing and the precision approach path indicator
- \$68,600 to reflect costs over budget on the construction of streets on a section of East Maple Street an reconstruction of sections of Sheridan Street & East Avenue and \$48,500 for watermain installation along those sections
- \$62,505 for the receipt of a FEMA grant for an exhaust air filtering system in the Fire Department vehicle bays
- \$51,500 for replacement of the concrete span bridge over Darling Creek in Fremont Lake Park
- \$40,000 for additional professional services costs related to the Gerber Products Company MTT Appeal and \$35,309 to reflect the decrease in property taxes to be received, from the final judgment

As a result of unexpected changes in revenues and expenditures in the General Fund, the City has variations between budgeted items and actual. Charges for services were lower than budgeted, but investment earnings and other miscellaneous revenues were higher. Employee fringe benefits were lower than budgeted due to cost cutting measures such as offering employees alternative options to receiving health insurance, saving the City an additional \$20,000 annually. Streets and sidewalk maintenance and capital outlay items were also lower than expected.

Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 totaled \$22,527,406 (net of accumulated depreciation.) Investments in capital assets include land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

Major projects included installation of perimeter fencing and a Precision Approach Path Indicator at the airport, street reconstruction along West Main Street, East Sheridan Street & East Ave., new street and watermain installation along East Maple Street and new watermain installation along West Main Street. Additional information on capital assets can be found in Note D of the Notes to the Financial Statements.

Debt Administration

As of June 30, 2006 the City had outstanding long-term liabilities of \$609,855 consisting of general obligation bonds, installment purchase agreements and compensated absences. No new debt was issued this year.

There is no long-term debt in either of the City's discretely presented component units.

All of the City's existing long-term liabilities, other than compensated absences, are scheduled to be paid off within the next two years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The general operating budget for next year is based on the continuation of the existing 14-mill property tax levy from this past year. The City's Charter permits a maximum tax levy of 20 mills for general operating purposes, but the City has been able to keep its levy at this relatively low level for the last eight years. If needed, an additional 6 mills (less a small Headlee millage rollback) could generate an additional estimated \$900,000 for general operating purposes.

Property tax revenue increases are greatly influenced by the 1994 Amendment to the State Constitution commonly referred to as "Proposal A." The statewide tax reform amendment limits the growth in taxable value on any individual property to the lesser of inflation or five percent (5%). Because some properties may increase in value by less than inflation, the mathematical result of this is that the total taxable value may grow at a rate less than inflation.

Again this year, employee co-pays on prescriptions and physician office visit benefits were increased in an effort to control increasing costs of health care benefits for the City's full-time employees. An alternative option for employees to receive additional pay instead of health insurance coverage was also implemented.

The City has responded to the economic downturn and pressure on revenues by trying to keep program expenses constant and increasing some user fees. The budget for 2006/2007 reflects expenditure reductions in many departments including capital spending.

The General Fund budget for next year decreased by \$193,000 compared to actual expenditures for the year ended June 30, 2006. There are no plans to decrease the General Fund fund balance next year, regardless of transfers to the Downtown Development Authority Fund in the amount of \$90,000 for new City Entry Signage and implementation of a new Wayfinding Sign System in Downtown and other strategic locations, \$52,500 to the Local Street Fund for 50% of Local Street Fund construction and \$56,000 to the Capital Projects Fund for various other projects.

For the City's business-type activities, the budget for next year holds water rates constant, with a potential increase in sewer rates. The Water Fund budget includes \$323,000 in capital construction and the Sewer Fund budget includes \$53,500 in capital construction.

The City is planning to sell Capital Improvement Bonds in the amount of \$1.7 million by December 1, 2006. The bond funds will be used to finance capital improvement projects in the downtown parking area and the Fremont Industrial park. The City intends to pay the bonds off over a 15 year period with captured taxes within the DDA and LDFA tax increment finance districts.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, please contact Finance Director/City Clerk Todd Blake at the City of Fremont, 101 E. Main Street, Fremont, MI 49412 or by phone at 231-924-2101 or by email at tblake@cityoffremont.net.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 5, 2006

City Council
City of Fremont
Fremont, Michigan

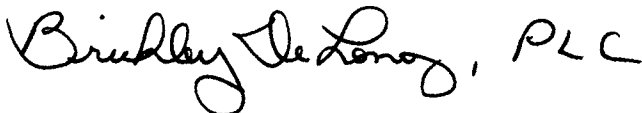
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fremont's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information on pages i - ix and 31 - 33, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fremont's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of Fremont
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 3,461,527	\$ 3,035,724	\$ 6,497,251	\$ 220,826
Receivables	97,946	353,702	451,648	-
Due from other governmental units	349,789	-	349,789	-
Internal balances	(21,940)	21,940	-	-
Total current assets	3,887,322	3,411,366	7,298,688	220,826
NONCURRENT ASSETS				
Capital assets, net				
Nondepreciable	3,993,922	240,698	4,234,620	-
Depreciable	9,247,185	9,045,601	18,292,786	-
Special assessments receivable	138,076	-	138,076	-
Total noncurrent assets	13,379,183	9,286,299	22,665,482	-
Total assets	17,266,505	12,697,665	29,964,170	220,826

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable and accrued liabilities	332,368	14,443	346,811	7,079
Deferred revenue	32,044	-	32,044	-
Bonds and other obligations, due within one year	390,000	12,000	402,000	-
Total current liabilities	754,412	26,443	780,855	7,079
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	193,086	14,769	207,855	-
Total liabilities	947,498	41,212	988,710	7,079
NET ASSETS				
Invested in capital assets, net of related debt	12,885,724	9,286,299	22,172,023	-
Restricted for:				
Streets and highways	675,014	-	675,014	-
Debt service	28,432	-	28,432	-
Perpetual care - nonexpendable	279,686	-	279,686	-
Other projects	107,989	-	107,989	-
Unrestricted	2,342,162	3,370,154	5,712,316	213,747
Total net assets	\$ 16,319,007	\$ 12,656,453	\$ 28,975,460	\$ 213,747

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			Component units
					Governmental activities	Business-type activities	Total	
Primary government								
Governmental activities								
General government	\$ 817,771	\$ 71,561	\$ 1,500	\$ 216,451	\$ (528,259)	\$ -	\$ (528,259)	\$ -
Public safety	1,162,576	213,246	33,401	60,397	(855,532)	-	(855,532)	-
Public works	1,423,711	298,310	369,166	736,641	(19,594)	-	(19,594)	-
Community and economic development	198,462	-	-	-	(198,462)	-	(198,462)	-
Culture and recreation	201,942	94,134	23,537	-	(84,271)	-	(84,271)	-
Interest on long-term debt	23,854	-	-	-	(23,854)	-	(23,854)	-
Total governmental activities	3,828,316	677,251	427,604	1,013,489	(1,709,972)	-	(1,709,972)	-
Business-type activities								
Sewer	566,735	444,485	-	-	-	(122,250)	(122,250)	-
Water	431,780	834,812	-	3,605	-	406,637	406,637	-
Total business-type activities	998,515	1,279,297	-	3,605	-	284,387	284,387	-
Total primary government	\$ 4,826,831	\$ 1,956,548	\$ 427,604	\$ 1,017,094	(1,709,972)	284,387	(1,425,585)	-
Component units								
Downtown Development Authority	\$ 273,958	\$ -	\$ 26,250	\$ -	-	-	-	(247,708)
Local Development Finance Authority	61,228	-	-	63,978	-	-	-	2,750
Total component units	\$ 335,186	\$ -	\$ 26,250	\$ 63,978	-	-	-	(244,958)
General revenues								
Property taxes					2,031,492	-	2,031,492	275,041
Franchise fees					34,027	-	34,027	-
Grants and contributions not restricted to specific programs					421,921	-	421,921	-
Unrestricted investment earnings					171,639	104,789	276,428	8,129
Miscellaneous					14,249	-	14,249	-
Gain on sale of capital assets					60,735	-	60,735	-
Transfers					(76,488)	76,488	-	-
Total general revenues and transfers					2,657,575	181,277	2,838,852	283,170
Change in net assets					947,603	465,664	1,413,267	38,212
Net assets at July 1, 2005					15,371,404	12,190,789	27,562,193	175,535
Net assets at June 30, 2006					\$ 16,319,007	\$ 12,656,453	\$ 28,975,460	\$ 213,747

The accompanying notes are an integral part of this statement.

City of Fremont
BALANCE SHEET
Governmental Funds
June 30, 2006

	General Fund	Major Streets Fund	Local Improvement Fund	Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS						
Cash and investments	\$ 1,163,581	\$ 485,669	\$ 593,505	\$ 187,435	\$ 448,968	\$ 2,879,158
Receivables						
Accounts	79,183	-	-	-	-	79,183
Special assessments	-	-	156,840	-	-	156,840
Advances to other funds	-	-	69,709	-	-	69,709
Due from other governmental units	182,465	37,554	-	115,525	14,245	349,789
Total assets	<u>\$ 1,425,229</u>	<u>\$ 523,223</u>	<u>\$ 820,054</u>	<u>\$ 302,960</u>	<u>\$ 463,213</u>	<u>\$ 3,534,679</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 41,681	\$ -	\$ -	\$ 238,651	\$ -	\$ 280,332
Accrued liabilities	48,880	915	-	985	915	51,695
Deferred revenue	32,044	-	156,446	-	-	188,490
Advances from other funds	69,709	-	-	-	-	69,709
Total liabilities	192,314	915	156,446	239,636	915	590,226
Fund balances						
Reserved for:						
Advances	-	-	69,709	-	-	69,709
Debt service	-	-	-	-	28,432	28,432
Capital projects	-	-	-	63,324	-	63,324
Perpetual care	-	-	-	-	279,686	279,686
Other	107,989	-	-	-	-	107,989
Unreserved						
Undesignated						
General Fund	1,124,926	-	-	-	-	1,124,926
Special revenue funds	-	522,308	593,899	-	154,180	1,270,387
Total fund balances	<u>1,232,915</u>	<u>522,308</u>	<u>663,608</u>	<u>63,324</u>	<u>462,298</u>	<u>2,944,453</u>
Total liabilities and fund balances	<u>\$ 1,425,229</u>	<u>\$ 523,223</u>	<u>\$ 820,054</u>	<u>\$ 302,960</u>	<u>\$ 463,213</u>	<u>\$ 3,534,679</u>

The accompanying notes are an integral part of this statement.

City of Fremont
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2006

Total fund balance—governmental funds	\$	2,944,453
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 19,813,355	
Accumulated depreciation	<u>(7,599,496)</u>	12,213,859

Special assessment revenue is not recognized until it is receivable in the current
period and, therefore, is shown as deferred revenue in the governmental funds.

156,446

Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(200,000)	
Compensated absences	<u>(227,703)</u>	(427,703)

Internal service funds are used by management to charge the costs of certain activities to
individual funds. The assets and liabilities of the internal service funds are reported with
governmental activities in the Statement of Net Assets.

1,431,952

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>16,319,007</u></u>
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The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	Major Streets Fund	Local Improvement Fund	Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES						
Property taxes	\$ 1,944,930	\$ -	\$ -	\$ -	\$ -	\$ 1,944,930
Licenses and permits	37,592	-	-	-	-	37,592
Intergovernmental revenues						
Federal	50,197	-	-	429,840	-	480,037
State	440,496	276,927	-	94,027	100,572	912,022
Local	-	-	-	81,138	239,988	321,126
Charges for services	461,519	-	-	-	7,205	468,724
Fines and forfeitures	44,098	-	-	-	-	44,098
Investment earnings	108,548	18,229	31,218	1,710	18,812	178,517
Other	199,906	50,092	16,501	5,967	-	272,466
Total revenues	<u>3,287,286</u>	<u>345,248</u>	<u>47,719</u>	<u>612,682</u>	<u>366,577</u>	<u>4,659,512</u>
EXPENDITURES						
Current						
General government	597,211	-	-	-	-	597,211
Public safety	849,384	-	-	-	-	849,384
Public works	533,274	131,792	-	1,401	81,758	748,225
Community and economic development	152,573	-	-	-	-	152,573
Culture and recreation	117,279	-	-	3,288	-	120,567
Other governmental functions	629,350	-	-	-	-	629,350
Debt service						
Principal	-	-	-	-	200,000	200,000
Interest and fees	3,986	-	-	-	16,450	20,436
Capital outlay	108,548	-	-	1,457,613	-	1,566,161
Total expenditures	<u>2,991,605</u>	<u>131,792</u>	<u>-</u>	<u>1,462,302</u>	<u>298,208</u>	<u>4,883,907</u>
Excess of revenues over (under) expenditures	295,681	213,456	47,719	(849,620)	68,369	(224,395)
OTHER FINANCING SOURCES (USES)						
Transfers in	32,578	-	-	658,368	197,450	888,396
Transfers out	(351,770)	(181,000)	(131,636)	-	(304,478)	(968,884)
Total other financing sources (uses)	<u>(319,192)</u>	<u>(181,000)</u>	<u>(131,636)</u>	<u>658,368</u>	<u>(107,028)</u>	<u>(80,488)</u>
Net change in fund balances	(23,511)	32,456	(83,917)	(191,252)	(38,659)	(304,883)
Fund balances at July 1, 2005	<u>1,256,426</u>	<u>489,852</u>	<u>747,525</u>	<u>254,576</u>	<u>500,957</u>	<u>3,249,336</u>
Fund balances at June 30, 2006	<u>\$ 1,232,915</u>	<u>\$ 522,308</u>	<u>\$ 663,608</u>	<u>\$ 63,324</u>	<u>\$ 462,298</u>	<u>\$ 2,944,453</u>

The accompanying notes are an integral part of this statement.

City of Fremont
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	(304,883)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(702,197)	
Capital outlay		<u>1,566,161</u>	863,964

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		200,000
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(16,027)
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Governmental funds recognize special assessments as revenue as they become current; however, they are recognized in full when levied in the Statement of Net Assets.		115,135
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		<u>89,414</u>
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Change in net assets of governmental activities	\$	<u><u>947,603</u></u>
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The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF NET ASSETS
 Proprietary Funds
 June 30, 2006

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 1,313,605	\$ 1,722,119	\$ 3,035,724	\$ 582,369
Accounts receivable	149,909	203,793	353,702	-
Total current assets	1,463,514	1,925,912	3,389,426	582,369
NONCURRENT ASSETS				
Capital assets				
Land	228,972	11,726	240,698	-
Utility systems	9,046,315	5,129,157	14,175,472	-
Equipment	100,418	35,286	135,704	2,371,691
Less accumulated depreciation	(3,766,198)	(1,499,377)	(5,265,575)	(1,344,443)
Total noncurrent assets	5,609,507	3,676,792	9,286,299	1,027,248
Total assets	7,073,021	5,602,704	12,675,725	1,609,617
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	2,017	2,711	4,728	-
Accrued liabilities	5,374	4,341	9,715	342
Bonds and other obligations, due within one year	3,000	9,000	12,000	99,000
Total current liabilities	10,391	16,052	26,443	99,342
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	2,732	12,037	14,769	56,383
Total liabilities	13,123	28,089	41,212	155,725
NET ASSETS				
Invested in capital assets, net of related debt	5,609,507	3,676,792	9,286,299	871,865
Unrestricted	1,450,391	1,897,823	3,348,214	582,027
Total net assets	\$ 7,059,898	\$ 5,574,615	12,634,513	\$ 1,453,892
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			21,940	
Net assets of business-type activities			\$ 12,656,453	

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended June 30, 2006

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 444,485	\$ 834,812	\$ 1,279,297	\$ 384,409
OPERATING EXPENSES				
Administration	71,573	74,761	146,334	27,350
Operations	254,432	276,514	530,946	130,649
Depreciation	242,871	81,276	324,147	212,426
Total operating expenses	568,876	432,551	1,001,427	370,425
Operating income (loss)	(124,391)	402,261	277,870	13,984
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	46,692	58,097	104,789	21,011
Connection fees	-	3,605	3,605	-
Gain on sale of capital assets	-	-	-	60,735
Interest expense	-	-	-	(7,404)
Total nonoperating revenues (expenses)	46,692	61,702	108,394	74,342
Income (loss) before transfers	(77,699)	463,963	386,264	88,326
Transfers in	39,289	37,199	76,488	4,000
Change in net assets	(38,410)	501,162	462,752	92,326
Net assets at July 1, 2005	7,098,308	5,073,453		1,361,566
Net assets at June 30, 2006	\$ 7,059,898	\$ 5,574,615		\$ 1,453,892
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			2,912	
Change in net assets of business-type activities			\$ 465,664	

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2006

	Business-type Activities - Enterprise funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 419,531	\$ 860,011	\$ 1,279,542	\$ -
Receipts from interfund services provided	2,146	11,171	13,317	384,409
Payments to suppliers	(97,366)	(153,440)	(250,806)	(130,649)
Payments to employees	(172,640)	(175,923)	(348,563)	(27,137)
Payment for interfund services used	(58,842)	(21,184)	(80,026)	-
Net cash provided by operating activities	92,829	520,635	613,464	226,623
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in	39,289	37,199	76,488	4,000
Proceeds from capital debt	-	-	-	166,517
Connection fees	-	3,605	3,605	-
Purchases of capital assets	(58,823)	(159,769)	(218,592)	(336,756)
Principal paid on capital debt	-	-	-	(97,679)
Interest paid on capital debt	-	-	-	(7,404)
Proceeds from sale of capital assets	-	-	-	60,735
Net cash used for capital and related financing activities	(19,534)	(118,965)	(138,499)	(210,587)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	46,692	58,097	104,789	21,011
Net increase in cash and investments	119,987	459,767	579,754	37,047
Cash and investments at July 1, 2005	1,193,618	1,262,352	2,455,970	545,322
Cash and investments at June 30, 2006	<u>\$ 1,313,605</u>	<u>\$ 1,722,119</u>	<u>\$ 3,035,724</u>	<u>\$ 582,369</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (124,391)	\$ 402,261	\$ 277,870	\$ 13,984
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	242,871	81,276	324,147	212,426
Change in assets and liabilities				
Receivables, net	(22,809)	36,369	13,560	-
Accounts payable	(3,375)	1,049	(2,326)	-
Accrued liabilities	533	(320)	213	213
Net cash provided by operating activities	<u>\$ 92,829</u>	<u>\$ 520,635</u>	<u>\$ 613,464</u>	<u>\$ 226,623</u>

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
June 30, 2006

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ 25,558
Receivables	1,109
Due from other governmental units	<u>300</u>
Total assets	<u>\$ 26,967</u>
 LIABILITIES	
Accounts payable	\$ 10,874
Due to other governmental units	<u>16,093</u>
Total liabilities	<u>\$ 26,967</u>

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF NET ASSETS
Discretely Presented Component Units
June 30, 2006

ASSETS

	Downtown Development Authority	Local Development Finance Authority	Total
	<u> </u>	<u> </u>	<u> </u>
CURRENT ASSETS			
Cash and investments	\$ 68,875	\$ 151,951	\$ 220,826

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	<u> 7,079</u>	<u> -</u>	<u> 7,079</u>
NET ASSETS			
Unrestricted	<u> 61,796</u>	<u> 151,951</u>	<u> 213,747</u>

The accompanying notes are an integral part of this statement.

City of Fremont
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2006

<i>Functions/Programs</i>	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Program Revenue		Downtown Development Authority	Local Development Finance Authority	
		Operating grants and contributions	Capital grants and contributions		Total	
Downtown Development Authority						
Community and economic development	\$ 273,958	\$ 26,250	\$ -	\$ (247,708)	\$ -	\$ (247,708)
Local Development Finance Authority						
Public works	57,638	-	63,978	-	6,340	6,340
Interest on long-term debt	3,590	-	-	-	(3,590)	(3,590)
Total Local Development Finance Authority	61,228	-	63,978	-	2,750	2,750
Total discretely presented component units	<u>\$ 335,186</u>	<u>\$ 26,250</u>	<u>\$ 63,978</u>	(247,708)	2,750	(244,958)
General revenues						
Property taxes				216,451	58,590	275,041
Unrestricted investment earnings				2,691	5,438	8,129
Total general revenues				219,142	64,028	283,170
Change in net assets				(28,566)	66,778	38,212
Net assets at July 1, 2005				90,362	85,173	175,535
Net assets at June 30, 2006				<u>\$ 61,796</u>	<u>\$ 151,951</u>	<u>\$ 213,747</u>

The accompanying notes are an integral part of this statement.

City of Fremont
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Fremont (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a June 30 fiscal year end.

Blended Component Unit

Building Authority. The Building Authority is appointed by the City Council and its activity is dependent on City Council actions. The Building Authority is reported as if it were part of the primary government because its sole purpose is to finance the construction of the City's public buildings. The Authority's activity is reported in the financial statements as a debt service fund.

Discretely Presented Component Units

Downtown Development Authority (DDA). The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the DDA district. Board members of the DDA are appointed by the City, and the Authority is fiscally dependent on the City since the Council approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Local Development Financing Authority (LDFA). The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and construction of public facilities in the LDFA district to promote and facilitate economic growth in the City. Board members of the LDFA are appointed by the City and the Authority is fiscally dependent on the City since the Council approves the LDFA budget and must approve any debt issuance. The LDFA is presented as a governmental fund type.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements—Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The Local Improvement Fund is used to account for amounts collected and receivable in conjunction with various special assessments for several City construction projects.

The Capital Projects Fund is used to account for the expenditure of the City's funds for major capital projects.

The City reports the following two major proprietary funds:

The Sewer Fund accounts for user charges, operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges, operating expenses and debt service of the City's water system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables—Continued

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the City totaled approximately \$135,736,000 of which approximately \$2,677,000 was captured by the DDA and approximately \$1,109,000 was captured by the LDFA. The ad valorem taxes levied consisted of 14 mills for the City's operating purposes. These amounts are recognized in the General Fund with captured amounts shown in the DDA and LDFA component units.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	10-50
Infrastructure	20
Utility systems	40-67
Vehicles and equipment	3-30

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the third Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second regular meeting in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended June 30, 2006, actual expenditures exceeded appropriations for the police department by \$10,877 in the General Fund. These overexpenditures were funded with available fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Months)	Moody's	Percent
Money market mutual fund	\$ 24,408	1	AAA	0.8 %
External investment pool	180,504	1	not rated	6.2
External investment pool	1,107,190	1	AAA	38.4
Negotiable certificates of deposit	739,756	29	not rated	25.6
Mortgage backed securities	839,311	56	AAA	29.0
Total fair value	<u>\$ 2,891,169</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>24</u>		

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

The City voluntarily invests certain excess funds in external investment pools (Pools). The Pools are an external investment pool of “qualified” investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the value of the Pool.

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the City's investments are in mortgage-backed securities issued by the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation and negotiable certificates of deposit issued by Standard Federal Bank. These investments are 19.33 percent, 6.40 percent and 12.17 percent, respectively, of the City's investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2006, \$3,565,410 of the City's bank balance of \$4,165,410 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,093,117	\$ -	\$ -	\$ 3,093,117
Construction in progress	<u>117,338</u>	<u>900,805</u>	<u>117,338</u>	<u>900,805</u>
Total capital assets, not being depreciated	3,210,455	900,805	117,338	3,993,922

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental activities:—Continued				
Capital assets, being depreciated:				
Land improvements	\$ 277,930	\$ 10,836	\$ -	\$ 288,766
Buildings and improvements	3,460,945	52,820	-	3,513,765
Vehicles and equipment	2,763,233	498,986	217,545	3,044,674
Infrastructure	<u>10,787,111</u>	<u>556,808</u>	<u>-</u>	<u>11,343,919</u>
Total capital assets, being depreciated	17,289,219	1,119,450	217,545	18,191,124
Less accumulated depreciation:				
Land improvements	111,825	13,725	-	125,550
Buildings and improvements	1,684,844	103,218	-	1,788,062
Vehicles and equipment	1,552,089	274,895	217,545	1,609,439
Infrastructure	<u>4,898,104</u>	<u>522,784</u>	<u>-</u>	<u>5,420,888</u>
Total accumulated depreciation	<u>8,246,862</u>	<u>914,622</u>	<u>217,545</u>	<u>8,943,939</u>
Total capital assets, being depreciated, net	<u>9,042,357</u>	<u>204,828</u>	<u>-</u>	<u>9,247,185</u>
Capital assets, net	<u>\$ 12,252,812</u>	<u>\$ 1,105,633</u>	<u>\$ 117,338</u>	<u>\$ 13,241,107</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 240,698	\$ -	\$ -	\$ 240,698
Capital assets, being depreciated:				
Buildings and improvements	3,456,339	-	-	3,456,339
Utility systems	10,518,503	218,592	17,961	10,719,134
Equipment	<u>135,704</u>	<u>-</u>	<u>-</u>	<u>135,704</u>
Total capital assets, being depreciated	14,110,546	218,592	17,961	14,311,177

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Business-type activities:—Continued				
Less accumulated depreciation:				
Buildings and improvements	\$ 2,675,159	\$ 85,808	\$ -	\$ 2,760,967
Utility systems	2,188,708	220,644	17,961	2,391,391
Equipment	95,523	17,695	-	113,218
Total accumulated depreciation	<u>4,959,390</u>	<u>324,147</u>	<u>17,961</u>	<u>5,265,576</u>
Total capital assets, being depreciated, net	<u>9,151,156</u>	<u>(105,555)</u>	<u>-</u>	<u>9,045,601</u>
Capital assets, net	<u><u>\$ 9,391,854</u></u>	<u><u>\$ (105,555)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,286,299</u></u>

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 87,263
Public safety	34,135
Public works	517,785
Culture and recreation	63,013
Internal Service Fund depreciation is charged to the various programs based on their usage the assets	<u>212,426</u>
	<u><u>\$ 914,622</u></u>

Business-type activities:

Sewer	\$ 242,871
Water	<u>81,276</u>
	<u><u>\$ 324,147</u></u>

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Local Improvement Fund	\$ 69,709	Operational loan

Interfund transfers:

		Transfers in:							
		<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Equipment Fund</u>	<u>Other governmental funds</u>	<u>Total</u>	<u>Purpose</u>
Transfers out:									
General Fund	\$ -	\$ 211,820	\$ -	\$ -	\$ 4,000	\$ 135,950	\$ 351,770		Capital projects
Major Streets									
Fund	-	119,500	-	-	-	61,500	181,000		Capital projects
Local Improvement									
Fund	-	55,148	39,289	37,199	-	-	131,636		Capital projects
Other governmental									Operations and
funds	32,578	271,900	-	-	-	-	304,478		capital projects
	<u>\$ 32,578</u>	<u>\$ 658,368</u>	<u>\$ 39,289</u>	<u>\$ 37,199</u>	<u>\$ 4,000</u>	<u>\$ 197,450</u>	<u>\$ 968,884</u>		

Component unit transactions:

During the year the TIFA and LDFA contributed significant amounts to the City as follows:

	<u>Governmental activities</u>
Capital activities	
LDFA	\$ 57,638
Operating activities	
DDA	\$ 216,451

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, all of the deferred revenue in the governmental funds was from special assessments, which are unavailable for current year expenditures.

NOTE G—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Governmental activities:					
General obligation bonds	\$ 400,000	\$ -	\$ 200,000	\$ 200,000	\$ 200,000
Installment purchase agreements	86,545	166,517	97,679	155,383	99,000
Compensated absences	<u>211,676</u>	<u>100,168</u>	<u>84,141</u>	<u>227,703</u>	<u>91,000</u>
Governmental activity long-term liabilities	<u>\$ 698,221</u>	<u>\$ 266,685</u>	<u>\$ 381,820</u>	<u>\$ 583,086</u>	<u>\$ 390,000</u>
Business-type activities:					
Compensated absences	<u>\$ 26,768</u>	<u>\$ 18,776</u>	<u>\$ 18,775</u>	<u>\$ 26,769</u>	<u>\$ 12,000</u>
Component units:					
General obligation bonds	<u>\$ 55,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ -</u>	<u>\$ -</u>
General obligation bonds:					
\$2,350,000 - 1992 Building Authority Revenue Bonds; final payment of \$200,000 due June 2007; interest at 4.00%					\$ 200,000

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Installment purchase agreements:

\$169,000 - 2003 Installment purchase agreement; final payment of \$43,828 due June 2007; interest at 2.50%	\$ 43,861
 \$166,517 - 2005 Installment purchase agreement due in annual installment of \$55,628 to \$55,893 through June 2008; interest at 3.92%	 <u>111,522</u> 355,383
 Compensated absences	 <u>227,703</u>
	<u>\$ 583,086</u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

All bonds and loans payable are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all various bond indentures at June 30, 2006.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2006 follows:

Year ending June 30,	Governmental activities	
	Principal	Interest
2007	\$ 299,000	\$ 13,500
2008	<u>56,383</u>	<u>2,159</u>
	<u>\$ 355,383</u>	<u>\$ 15,659</u>

NOTE H—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—OTHER INFORMATION—Continued

Risk Management—Continued

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain employees after they retire for three years or until the retiree reaches the age of 65.

As of year-end, there were two retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2006, the City's post-retirement health care cost under the Plan was approximately \$2,417.

Leases

The City leases land, vehicles and equipment under noncancelable operating leases. The costs for such leases were approximately \$5,700. The future minimum lease payments for these leases are as follows:

Year ending June 30,	Amount
2007	\$ 5,800
2008	3,000
2009	2,400
	<u>\$ 11,200</u>

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—OTHER INFORMATION—Continued

Leases—Continued

The City also received approximately \$18,200 for the year ended June 30, 2006 from noncancelable operating leases for land use and hanger rentals which has been recorded as rental income. The future minimum rental income for these leases is as follows:

Year ending June 30,	Amount
2007	\$ 20,800
2008	7,700
2009	900
2010	900
2011	900
2012-2016	4,200
2017-2021	4,200
2022-2026	4,200
2027-2031	4,200
2032-2034	2,500
	<u>\$ 50,500</u>

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The City of Fremont is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Fremont. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Fremont
101 E. Main Street
Fremont, MI 49412

Funding Policy. Plan members are not required to contribute to the plan. The City is required to contribute at an actuarially-determined rate depending upon position from 13.80 to 19.77 percent of covered wages.

City of Fremont
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Annual Pension Cost. For the year ended June 30, 2006, the City's annual pension cost was approximately \$230,000 which the City contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

Year ended	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/04	\$ 196,000	100 %	\$ -
06/30/05	223,000	100	-
06/30/06	230,000	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/03	\$ 4,547	\$ 6,102	\$ (1,555)	75 %	\$ 1,217	128 %
12/31/04	4,815	6,592	(1,777)	73	1,255	142
12/31/05	5,098	7,016	(1,918)	73	1,332	144

NOTE J—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 13 percent of General Fund revenues.

The City's General, Water and Sewer funds have a significant economic dependence on a local corporation. During the year ended June 30, 2006, the corporation's billings for property taxes approximated 24 percent of total property taxes in the General Fund and the corporation's billings for utilities approximated 62 and 10 percent of total billings in the Water Fund and Sewer Fund, respectively.

NOTE K—SUBSEQUENT EVENTS

In July 2006, the City purchased two new public safety vehicle chassis for about \$56,000.

In July 2006, the City approved professional services for the design and construction engineering of several projects for about \$88,000. An additional \$218,000 was approved in August 2006 for further engineering and construction management.

In August 2006, the City approved watermain, sanitary sewer, and street remilling and resurfacing work for about \$211,000.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fremont
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,972,885	\$ 1,937,576	\$ 1,944,930	\$ 7,354
Licenses and permits	34,500	34,500	37,592	3,092
Intergovernmental revenues				
Federal	-	62,505	50,197	(12,308)
State	419,150	419,150	440,496	21,346
Charges for services	455,200	455,200	461,519	6,319
Fines and forfeitures	30,500	30,500	44,098	13,598
Investment earnings	80,000	80,000	108,548	28,548
Other	165,900	179,560	199,906	20,346
Total revenues	3,158,135	3,198,991	3,287,286	88,295
EXPENDITURES				
Current				
General government				
Legislative	15,500	15,500	13,497	2,003
Executive	86,900	86,900	86,902	(2)
Elections	9,200	9,200	6,551	2,649
General administration	3,500	3,500	3,420	80
Clerk	92,150	92,150	90,988	1,162
Treasurer	56,000	56,000	57,349	(1,349)
Board of review	950	950	750	200
Assessor	61,650	101,650	96,303	5,347
Cemetery	90,900	90,900	79,379	11,521
Attorney	25,000	25,000	22,999	2,001
Building and grounds	97,000	99,000	103,581	(4,581)
Public relations	28,000	32,500	35,492	(2,992)
Public safety				
Police department	571,100	571,100	581,977	(10,877)
Fire department	259,000	264,000	267,407	(3,407)
Public works				
Streets, street lighting and sidewalks	356,500	365,160	328,758	36,402
Engineering	15,000	15,000	-	15,000
Sanitation	202,100	202,100	204,516	(2,416)
Community and economic development				
Planning and zoning	108,150	108,150	94,071	14,079
Other	59,500	59,500	58,502	998
Culture and recreation				
Parks and recreation	126,000	126,000	117,279	8,721
Other governmental functions				
Employee fringe benefits and other items	588,500	596,500	575,221	21,279
Airport operations	43,300	43,300	40,614	2,686
Parking systems	15,350	15,350	13,515	1,835
Debt service				
Interest and fees	3,990	3,990	3,986	4
Capital outlay	103,850	158,596	108,548	50,048
Total expenditures	3,019,090	3,141,996	2,991,605	150,391
Excess of revenues over (under) expenditures	139,045	56,995	295,681	238,686
OTHER FINANCING SOURCES (USES)				
Transfers in	31,000	31,000	32,578	1,578
Transfers out	(343,775)	(445,371)	(351,770)	93,601
Total other financing sources (uses)	(312,775)	(414,371)	(319,192)	95,179
Net change in fund balance	\$ (173,730)	\$ (357,376)	(23,511)	\$ 333,865
Fund balance at July 1, 2005			1,256,426	
Fund balance at June 30, 2006			\$ 1,232,915	

City of Fremont
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 295,000	\$ 295,000	\$ 276,927	\$ (18,073)
Investment earnings	8,000	8,000	18,229	10,229
Other	50,000	50,000	50,092	92
Total revenues	353,000	353,000	345,248	(7,752)
EXPENDITURES				
Current				
Public works	175,500	175,500	131,792	43,708
Excess of revenues over (under) expenditures	177,500	177,500	213,456	35,956
OTHER FINANCING USES				
Transfers out	(218,122)	(218,122)	(181,000)	37,122
Net change in fund balance	\$ (40,622)	\$ (40,622)	32,456	\$ 73,078
Fund balance at July 1, 2005			489,852	
Fund balance at June 30, 2006			\$ 522,308	

City of Fremont
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE

Local Improvement Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 20,490	\$ 20,490	\$ 31,218	\$ 10,728
Other	-	-	16,501	16,501
Total revenues	20,490	20,490	47,719	27,229
OTHER FINANCING USES				
Transfers out	(307,400)	(307,400)	(131,636)	175,764
Net change in fund balance	\$ (286,910)	\$ (286,910)	(83,917)	\$ 202,993
Fund balance at July 1, 2005			747,525	
Fund balance at June 30, 2006			\$ 663,608	

OTHER SUPPLEMENTAL INFORMATION

City of Fremont
COMBINING BALANCE SHEET
 Other Governmental Funds
 June 30, 2006

	Total other governmental funds	Special Revenue		Debt Service	Permanent Cemetery Perpetual Care
		Local Streets	Arboretum Park	Building Authority	
ASSETS					
Cash and investments	\$ 448,968	\$ 139,376	\$ 1,474	\$ 28,432	\$ 279,686
Due from other governmental units	<u>14,245</u>	<u>14,245</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 463,213</u>	<u>\$ 153,621</u>	<u>\$ 1,474</u>	<u>\$ 28,432</u>	<u>\$ 279,686</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accrued liabilities	\$ 915	\$ 915	\$ -	\$ -	\$ -
Fund balances					
Reserved for:					
Debt service	28,432	-	-	28,432	-
Perpetual care	279,686	-	-	-	279,686
Unreserved					
Undesignated	<u>154,180</u>	<u>152,706</u>	<u>1,474</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>462,298</u>	<u>152,706</u>	<u>1,474</u>	<u>28,432</u>	<u>279,686</u>
Total liabilities and fund balances	<u>\$ 463,213</u>	<u>\$ 153,621</u>	<u>\$ 1,474</u>	<u>\$ 28,432</u>	<u>\$ 279,686</u>

City of Fremont
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2006

	Total other governmental funds	Special Revenue		Debt Service	Permanent Cemetery Perpetual Care
		Local Streets	Arboretum Park	Building Authority	
REVENUES					
Intergovernmental revenues					
State	\$ 100,572	\$ 100,572	\$ -	\$ -	\$ -
Local	239,988	-	23,537	216,451	-
Charges for services	7,205	-	-	-	7,205
Investment earnings	18,812	5,674	116	2,609	10,413
Total revenues	366,577	106,246	23,653	219,060	17,618
EXPENDITURES					
Current					
Public works	81,758	81,758	-	-	-
Debt service					
Principal	200,000	-	-	200,000	-
Interest and fees	16,450	-	-	16,450	-
Total expenditures	298,208	81,758	-	216,450	-
Excess of revenues over expenditures	68,369	24,488	23,653	2,610	17,618
OTHER FINANCING SOURCES (USES)					
Transfers in	197,450	197,450	-	-	-
Transfers out	(304,478)	(271,900)	(23,537)	-	(9,041)
Total other financing sources (uses)	(107,028)	(74,450)	(23,537)	-	(9,041)
Net change in fund balances	(38,659)	(49,962)	116	2,610	8,577
Fund balances at July 1, 2005	500,957	202,668	1,358	25,822	271,109
Fund balances at June 30, 2006	\$ 462,298	\$ 152,706	\$ 1,474	\$ 28,432	\$ 279,686